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The housing crisis—understanding the background

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Property analysis: In the first article in our series on the housing crisis, Liz Searl, head of residential property at Backhouse Solicitors, looks at the issues which have contributed to the UK's housing crisis, the historical measures put forward to tackle the crisis and future prospects that could help alleviate the problems.

What events have contributed to the housing crisis?

The UK's population has boomed over the past decade, but the housing market has been unable to keep up. There has been an increase in the formation of smaller households, which requires an increase in smaller, more affordable properties. However, these properties, particularly flats, are usually snapped up quickly by savvy investors, as the returns on tenanted residential properties represent an attractive income.

The current cost of living also plays a large part in the housing crisis. You may have heard the argument that millennials spend too much on luxuries which is why they cannot afford a house. While this may be partly true, the median cost of purchasing a house rose by approximately 259% between 1997 and 2016, yet average earnings only rose by 68% for the equivalent period. The idea of ever owning a property has become an unlikely dream for many millennials, despite the government's best endeavours.

Another contributor is the lack of suitable retirement accommodation for the UK's ever growing older generation. Many people wish to downsize in their retirement to a more manageable property, however there is a lack of suitable accommodation which would allow them to retain their independence and continue their everyday lives. Key factors include proximity to:

- shops
- loved ones
- public transport
- points of interest
- the local community

If the older generation were able to downsize in this way larger properties on the housing ladder would be freed up enabling others to move up the housing ladder.

What schemes and legislation have been successful?

The government has introduced several schemes in a bid to boost the housing market, particularly aimed at first time buyers and those with smaller deposits.

In December 2013, the Help to Buy Equity Loan Scheme was launched to assist buyers with small deposits to buy a new-build property up to the value of £600,000. With a Help to Buy loan, the government lends the buyer up to 20% of the property costs (40% in Greater London) so the buyer only needs a 5% deposit and 75% mortgage. The loan is interest-free for the first five years after which a monthly admin fee applies.

The scheme has proved popular with first-time buyers (circa 81% of loans granted) and home movers since its launch, although has faced criticism in some areas for increasing house prices due to the upper limit for which the loan may be obtained. From launch up to 31 December 2017, 158,883 properties had been purchased with an equity loan with a total value of equity loans reaching £8.26bn and a total value of the properties sold under the scheme totalling £39.28bn.

The government also introduced the Help to Buy ISA in December 2015. This is designed to help first-time buyers save the deposit to buy a home. Just like any ISA product, savings are tax-free but a Help to Buy ISA also benefits from added government contributions of 25% of the amount saved. The maximum government bonus is currently capped at £3,000 per ISA rather than per person. The bonus is claimed by the buyer's solicitor as part of the conveyancing process and must be used towards the purchase of a property rather than on legal or estate agent fees etc.

Figures released by HM Treasury show that in the period from December 2015 to December 2017, 128,328 property completions were assisted by a Help to Buy ISA with an average bonus pay out of £767. Statistics show that the median age of a first-time buyer using a Help to Buy ISA is 27 and when compared with the national

median age of 30 to buy a property, the scheme is potentially helping to get first time buyers on to the ladder sooner.

The most recent scheme introduced by the government is a cut in stamp duty land tax for first time buyers, enshrined in the [Finance Act 2018](#). This abolished stamp duty for first time buyers on property purchases for £500,000.00 or less. It is still too early however for the figures to show whether this abolition is having a significant effect on the first-time buyer market.

Less successful than incentives to buy are the cuts to many of the tax reliefs which landlords can claim on their buy-to-let properties. The phasing out began in 2017, however it doesn't appear to have substantially harmed the landlord market, as in the previous tax year the number of buy-to-let investors increased by 5%. An increase in available mortgage products for limited companies may have contributed to this increase, as many buy-to-let investors are incorporating to avoid the tax relief cuts.

What policies could the government adopt to solve the housing crisis?

Firstly, the government should introduce stricter rules on community infrastructure and affordable housing for new development sites. Developers make more profit on luxury homes than affordable housing, so it is no surprise that they endeavour to argue down the percentage of affordable housing required on site. Most local authority housing policies require 30% of homes within a new development to be 'affordable housing', however with local councils under increasing pressure to meet their building targets, developers have a tendency to drive down the number of affordable properties in the deal by delaying construction until the council reduces the number of affordable houses required.

Secondly, the government could insist on a minimum number of joint ventures between local authorities and developers. This would ensure that local infrastructure and affordable housing are prioritised more in the development process. For other local residents, strain on existing infrastructure is a major concern when land is bought for large scale residential developments.

There has been some debate about the use of greenbelt land for residential development. This is a highly controversial subject, as many wish to protect the UK's greenbelt to preserve the environment. The subject may have to be revisited as in key areas we are running out of available space to build.

Are there other issues practitioners should be aware of?

In some areas, local residents are being priced out of the market as a result of hefty foreign investment. London, for example, has seen almost £100bn of foreign investment in recent years which has been blamed for driving up property values.

Furthermore, in areas of the country with a tourist pull such as Devon and Cornwall, a significant percentage of the housing stock is taken by second homes, restricting access to properties to locals, and particularly first time buyers, wishing to join the property ladder.

Interviewed by Hannah Thompson.

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